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**UNITED STATES DISTRICT COURT**  
**CENTRAL DISTRICT OF CALIFORNIA**

19 UNITED STATES OF AMERICA,

20 Plaintiff,

21 v.

22 OLYMPIA HEALTH CARE LLC,  
23 ALECTO HEALTHCARE SERVICES,  
24 LLC, MPT OF LOS ANGELES, L.P.,  
25 MPT OF OLYMPIA, LLC, MPT  
OPERATING PARTNERSHIP, L.P.,  
MEDICAL PROPERTIES TRUST,  
INC., SHERMAN/GRAYSON  
HOSPITAL, LLC, ALECTO  
HEALTHCARE SERVICES  
SHERMAN, LLC, LAXMAN REDDY,  
MATTHEW WILLIAMS, and  
JEREMY REDIN,

Defendants.

Case No. 2:23-cv-01783-ODW-PVC

JOINT STATUS REPORT  
CONCERNING CLAIMS AGAINST  
DEFENDANTS OLYMPIA  
HEALTH CARE LLC, ALECTO  
HEALTHCARE SERVICES LLC,  
SHERMAN/GRAYSON HOSPITAL,  
LLC, ALECTO HEALTHCARE  
SERVICES SHERMAN, LLC,  
LAXMAN REDDY, MATTHEW  
WILLIAMS, AND JEREMY REDIN

1 Plaintiff United States of America (“Plaintiff”), Defendants Olympia Health  
2 Care LLC, Alecto Healthcare Services Sherman, LLC, Laxman Reddy, Matthew  
3 Williams, and Jeremy Redin (collectively the “Alecto Defendants”), by and  
4 through their undersigned counsel, submit this joint status report as ordered by the  
5 Court (Doc. No. 30) in light of the Alecto Defendants’ insurance coverage dispute  
6 and the bankruptcy filings and consequent automatic stay of this litigation against  
7 Defendants Sherman/Grayson Hospital, LLC (“Sherman Hospital”) and Alecto  
8 Healthcare Services LLC (“Alecto”) (collectively, the “Bankrupt Defendants”).

9 1. As previously reported, on October 20, 2023, Plaintiff dismissed its claims,  
10 without prejudice, against Defendants MPT of Los Angeles, L.P., MPT of  
11 Olympia, LLC, MPT Operating Partnership, L.P., and Medical Properties Trust,  
12 Inc., (Doc. No. 35).

13 2. Plaintiff and the Alecto Defendants (collectively, the “Parties”) reported in  
14 prior status reports to the Court, that a continued stay of the litigation was  
15 warranted because of (1) the Bankrupt Defendants’ ongoing bankruptcy  
16 proceedings, along with (2) the Alecto Defendants’ ongoing dispute with their  
17 insurer. Since the November 5, 2024 status report, as detailed below, the  
18 bankruptcy court has (1) lifted the stay of litigation as to Sherman Hospital and  
19 Alecto solely to allow the United States to file an amended complaint in this Court,  
20 and (2) the Parties have been negotiating a stipulation to allow Plaintiff to amend  
21 its complaint.

22 3. Regarding the bankruptcies:

23 a. Plaintiff’s claims against the Alecto Defendants are significantly  
24 impacted by the Alecto and Sherman Hospital bankruptcies. The Alecto  
25 Defendants and the Bankrupt Defendants filed their Answer to the Complaint on  
26 May 11, 2023, over a month before Alecto and Sherman Hospital filed separate  
27 Chapter 11 bankruptcy petitions on June 16, 2023, and June 23, 2023, respectively,  
28 which are pending in two separate cases in the United States Bankruptcy Court for

1 the District of Delaware. While the same judge presides over both bankruptcies,  
2 the cases have different U.S. trustees, and Alecto filed as a Subchapter V debtor,  
3 while Sherman Hospital is a liquidating Chapter 11 debtor. During its bankruptcy,  
4 the assets of Sherman Hospital were sold pursuant to an order of the bankruptcy  
5 court and the hospital remains in operation, with a pending motion to settle claims  
6 and dismiss the bankruptcy case. Alecto also continues to operate pursuant to its  
7 confirmed plan of reorganization, as further described below.

8 b. As previously reported, Sherman Hospital’s motion to approve a  
9 settlement and dismissal of its Chapter 11 case – which was filed in October 2023  
10 and to which multiple objections were filed – remains pending and the Parties  
11 cannot predict when Sherman Hospital’s bankruptcy will be completed. In the  
12 Alecto bankruptcy, its Small Business Debtor’s Plan of Reorganization (the  
13 “Plan”) became effective on April 19, 2024. Under the Plan Alecto will make  
14 three years’ worth of payments to creditors, to conclude potentially by mid-2027.  
15 Based on the Plan, the United States expects that it will receive less than 10% of  
16 the amount of its claims in this case. An unsecured creditor’s appeal of the order  
17 confirming the Plan remains pending, with briefing scheduled to conclude on  
18 December 6, 2024. Since the Parties’ previous Joint Status Report of August 5,  
19 2024 (Doc. No. 42), there have been further developments in the bankruptcies:

20 (1) In the Alecto bankruptcy, the United States and Alecto jointly filed a  
21 stipulation on November 13, 2024, to lift the stay of litigation against Alecto solely  
22 to allow the United States to amend the claims against it in this Court, which the  
23 bankruptcy court approved by order on that same date, and which the Alecto  
24 Defendants did not oppose.

25 (2) In the Sherman Hospital bankruptcy, the United States and Sherman  
26 Hospital jointly filed a stipulation on October 29, 2024, to lift the stay of litigation  
27 against Sherman Hospital solely to allow the United States to amend the claims

1 against it in this Court, which the bankruptcy court approved by order on  
2 November 13, 2024, and which the Alecto Defendants did not oppose.

3 4. Regarding discovery in this case:

4 a. On June 23, 2023, Plaintiff filed the Parties' first stipulation to extend  
5 time for the scheduling conference through September 18, 2023 (Doc. No. 22). On  
6 June 26, 2023, the Court entered its Order granting the parties' stipulation for  
7 continuance of the scheduling conference (Doc. No. 23). As a result, a scheduling  
8 order has not been issued. Plaintiff continues to analyze and evaluate the impact of  
9 the bankruptcies on its claims against the Alecto Defendants, including the effect  
10 of the automatic stay on Plaintiff's ability to conduct discovery of information in  
11 Alecto's custody and control, which necessarily hinders the ability to effectively  
12 meet with the Parties' counsel, prepare a report to the court, and prepare for and  
13 participate in a scheduling conference in court.

14 b. The Parties agreed that necessary discovery – most importantly from  
15 Alecto – could not occur without permission from the bankruptcy court.  
16 Specifically, although the individual defendants Laxman Reddy, Matt Williams  
17 and Jeremy Redin may have access to Alecto's or Sherman Hospital's documents  
18 for conducting business, the bankruptcy stay does not allow production of Alecto's  
19 or Sherman Hospital's documents in this litigation before this Court. Additionally,  
20 production of documents in the bankruptcies would require the Bankrupt  
21 Defendants to incur substantial expense for attorneys and support staff. Those  
22 expenses would also require approval by the bankruptcy court, which at this  
23 moment cannot be ensured, and which would erode the bankruptcy estate assets of  
24 Alecto and/or Sherman Hospital for a potential recovery by Plaintiff.

25 5. Regarding the insurance coverage issues, the Alecto Defendants and the  
26 Bankrupt Defendants continue to be involved in ongoing conversations with their  
27 insurance companies about potential insurance coverage for certain of Plaintiff's  
28 claims. The Parties agree that, optimally, the insurance coverage issues should be

1 resolved before a Rule 16 conference is held or scheduling order is issued. On  
2 December 5, 2022, the Alecto Defendants tendered the claims that the United  
3 States later asserted in the Complaint against the individual defendants to their  
4 primary and excess insurance carriers. With cooperation from the United States,  
5 the Alecto Defendants provided a draft complaint to the primary insurance  
6 company for its review and consideration on January 22, 2023. Despite follow-up  
7 from the Alecto Defendants with their insurance companies, the primary insurance  
8 company did not issue a coverage decision until June 15, 2023. The coverage  
9 letter denied coverage for the claim under the primary policy and under an excess  
10 policy issued by the primary insurance company; the other excess policy follows  
11 form and the excess carrier would have presumably followed that coverage  
12 decision. The Alecto Defendants disagreed with the primary insurance company's  
13 decision to deny coverage under any of the policies and contested the denial.

14 On October 2, 2023, the primary insurance company agreed to withdraw its  
15 declination of coverage, but continues to maintain a full reservation of rights  
16 pending its ongoing investigation of the claim. Thus, coverage could still  
17 ultimately be denied.

18 With the December 2023 filings of the \$29 million CMS proofs of claim in the  
19 Alecto and Sherman Hospital bankruptcies, the United States informed counsel for  
20 the Alecto Defendants that the additional \$17 million in claims may also be  
21 asserted against the individual defendants, and may thus be subject to insurance  
22 coverage. The United States is now planning to file an amended complaint in this  
23 Court to assert those additional claims, which is no longer prevented by the stays  
24 of litigation against the Bankrupt Defendants. The Alecto Defendants have  
25 provided notice of the additional \$17 million in claims to its insurance carriers and  
26 its insurance carriers are reviewing the notice of additional claims and the potential  
27 for coverage under applicable insurance policies.

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1 The developments could help facilitate a resolution of this matter without  
2 further litigation as the Parties explore the possibility for alternative dispute  
3 resolution, which could ultimately facilitate a resolution of this matter while  
4 respecting judicial economy. Moreover, the insurance policies at issue are eroding  
5 policies, meaning insurance money spent on defense costs reduces the amount of  
6 money available for potential recovery by Plaintiff. The Parties believe that  
7 continuing the stay pending resolution of the bankruptcies and insurance coverage  
8 dispute is the most efficient and economical method to resolve this matter at this  
9 time, along with the Parties' continuing to file quarterly reports so the Court can  
10 evaluate the progress of the bankruptcy and insurance dispute issues relative to the  
11 prosecution and needs of this case.

12 6. Plaintiff, however, reserves the right to move to lift the Court's stay of this  
13 case and resume litigation if Plaintiff, in its sole discretion, determines that  
14 resolution of the bankruptcies or the insurance coverage dispute is no longer in the  
15 best interest of the United States.

16 7. This joint status report is made in good faith and not for the purpose of delay  
17 or for any other improper purpose.

18 Dated: February 5, 2025

UNITED STATES OF AMERICA

19 By: /s/ Stanton C. McManus  
20 Stanton C. McManus  
21 Trial Attorney  
22 United States Department of Justice

23 Attorneys for Plaintiff United States  
24 of America

25 Dated: February 5, 2025

MICHAEL BEST & FRIEDRICH LLP

26 By: /s/ Evan S. Strassberg  
27 (CA Bar No. 219336)

28 Attorneys for Defendants Olympja  
Health Care LLC, Alecto Healthcare

1 Services, LLC, Sherman/Grayson  
2 Hospital, LLC, Alecto Healthcare  
3 Services Sherman, LLC, Laxman  
Reddy, Matthew Williams, and  
Jeremy Redin  
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5 **ATTESTATION**

6 In accord with Local Civil Rule 5-4.3.4(a)(2)(i), I attest that all other  
7 signatories listed, and on whose behalf this filing is submitted, concur in the  
8 filing's content and have authorized the filing.  
9

10 Dated: February 5, 2025

UNITED STATES OF AMERICA

11 By: /s/ Stanton C. McManus  
12 Stanton C. McManus, Trial Attorney  
13 United States Department of Justice  
14 Attorneys for Plaintiff United States  
15 of America  
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